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As I see

THE MEANS OF PREVENTING A MAJOR DEPRESSION

THE Russians expect an economic collapse in the United States sometime in the not too distant future. They are pinning their hopes for the triumph of Communism over free enterprise on the failure of our system to maintain its equilibrium. Harold Stassen, in his new book just released, Where I Stand, says that on his recent visit to Russia Joseph Stalin's chief question to him concerned the stability of our American economy.

There are many reasons for believing that the Russians may be right in their opinion that we cannot prevent a major depression sometime in the fifties. It seems to me that the policies which we are following now will almost insure the occurrence of such a depression. Whether these policies can be made more rational or not, only the future can tell.

If a major depression develops in the fifties, what will be its principal causes?

I think we will find the answer to this question in a study of the behavior of consumer goods industries and durable goods industries in the past. The chart on page 437 shows a comparison of the fluctuations of these two varieties of business activity. It will be noticed that the line showing consumer goods has fluctuations which are relatively minor. Even during the big depression of the thirties the demand for consumer goods dropped by a relatively small amount. This was not true, however, in the durable goods field. The line showing these fluctuations has tremendous swings with amplitudes far greater than anything shown by the other line. In other words, it can probably be established without any fear of contradiction whatever, that the major depressions in the United States are caused not by fluctuations in the consumer goods industries but by major fluctuations in the durable goods industries.

From the standpoint of dollar volume the fluctuations in the construction field are by far the greatest in the entire durable goods industry. In 1933 the volume of all new construction amounted to \$2,223,000,000, while in 1947 the total dollar volume will probably equal \$12,500,000,000, an increase of 462 per cent.

The present expenditures for construction are almost as high as the greatest we have ever had in the United States, yet we are making every possible effort to increase this amount by a still larger percentage. Whether the eventual outcome of this policy will result in greater good than the almost inevitable evil it will cause, is open to great question. It seems to me that the only way to smooth out the business cycle in the United States is to level out the capital goods industry. Since new construction forms one of the major segments of that industry, it will be necessary,

if a stable economy is to be achieved, to avoid too great a variation from year to year in the volume of construction actually taking place.

The optimist may think it possible to stabilize an industry at the highest annual total ever achieved, but I certainly think that the burden of proof would rest on the man who assumes that today's construction volume could be maintained year after year without creating a large surplus of units. Certainly no serious student of the problem has ever assumed that we could build more than a million units per year as a rate which would continue indefinitely into the future. The greater the percentage by which we exceed this rate during the next few years, the greater will be the percentage by which we fall below it in the years that follow. When construction volume starts dropping rapidly, the next big depression will start.

From the other angle, however, how will we dissipate our present housing shortage without building at a more rapid rate than we have now attained?

I have often pointed out in our bulletins over a long period of years that when the present building boom really got under way it would apparently make no dent initially on the housing shortage and that the activity which it would create would increase the demand for housing by a sufficient percentage so that apparently the housing shortage would become more intense in spite of the fact that we were building at a rather rapid rate. This does not mean, however, that we have not made any impression on the housing shortage; in fact, I often wonder whether the present housing shortage is nearly so acute as many people suppose. I think probably the housing shortage is caused more by an unusual and abnormal demand than by an actual shortage of housing accommodations.

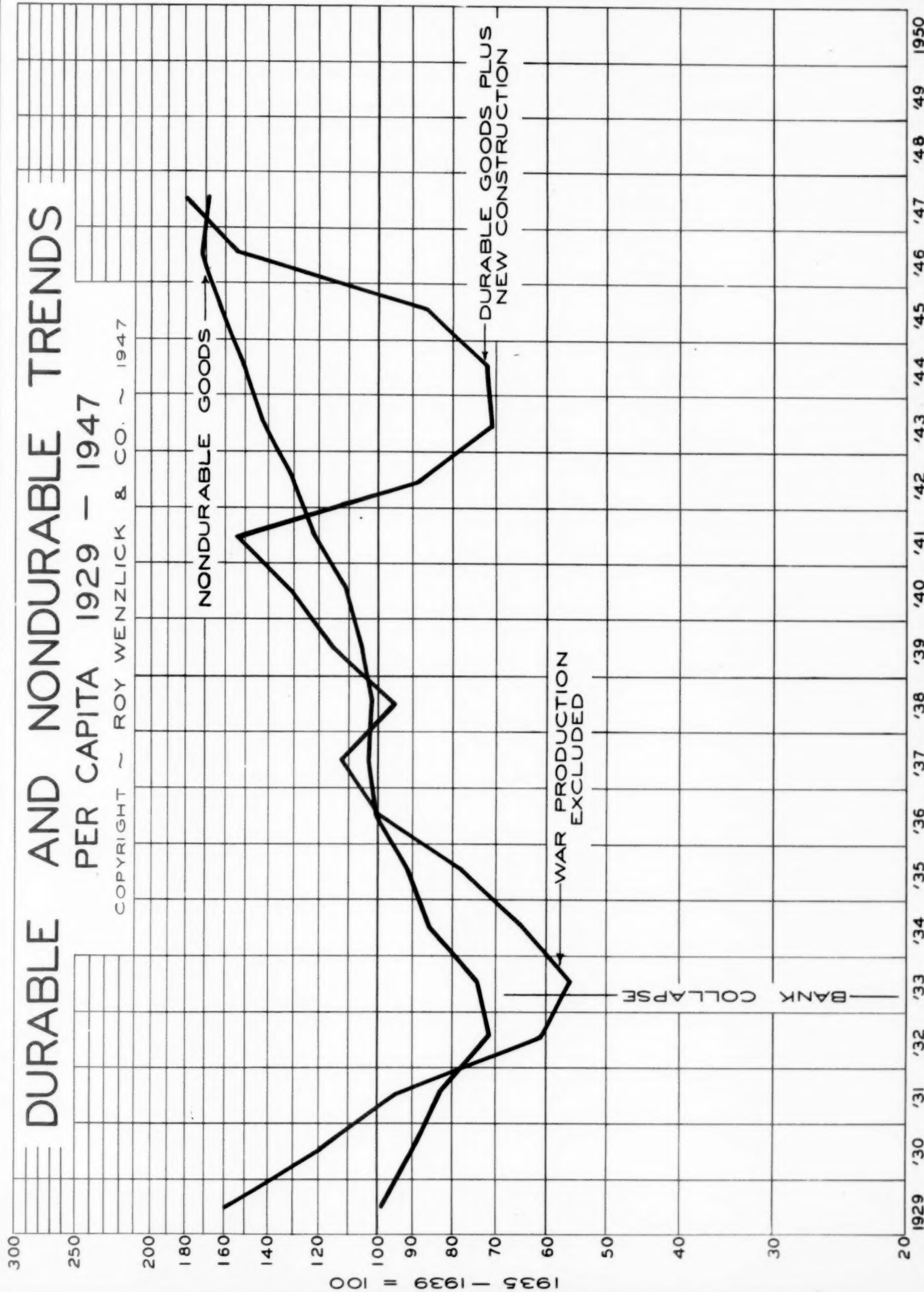
Harold Stassen has one suggestion on the housing situation in his new book which I think would be of considerable value. Since it is a known fact that a far larger percentage of apartment units are now being occupied by one single individual than was the case in the past (1940, for instance), he suggests that rent control be removed from apartment units of two rooms or more which are occupied by one individual. An increase in rents on these units would bring about a far more efficient use of space than we have at the present time. As there are 2,864,000 dwelling units occupied by only one person in the United States, any contraction in demand here might make a large number of units available for GI's and their families. A moderate increase in rent ceilings on all dwelling units would bring some contraction in demand and would tend to ration the existing space to a far larger number of people.

It seems to me that the stimulation of new construction by special government inducements, if it is ever justified, would be justified four or five years from now when normal construction volume starts to fall off. This would have several beneficial effects: It would prevent the unemployment which generally starts to spiral upward with a drop in construction activity. It would have more definite, concrete results than a leaf-raking program. By avoiding the attempt to build additional units at a record high, with the inevitable price increases which always come in an over-sold market, the buildings which would be built with government guarantees or inducements would be built at lower prices than they would were they built in 1947 or 1948. This, again, would give these buildings a greater chance of working out over a period of years without loss to the taxpayer. A volume of building during the period which would normally be slack would prevent building costs' dropping by so great a per-

DURABLE AND NONDURABLE TRENDS

PER CAPITA 1929 - 1947

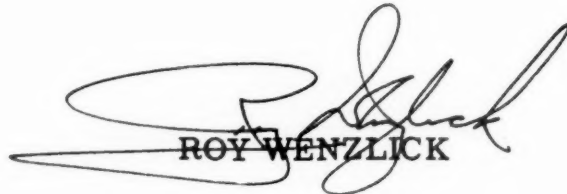
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centage as they would otherwise drop, and if building costs do not drop as they did in the thirties, the values of existing buildings will also be stabilized to a far greater extent than they were then. If the values of existing buildings drop materially in the middle fifties, many mortgages will be left high and dry, many GI's will find that their homes are not worth the amount that they still owe against them, and the government will be called upon to make good the guarantees at the expense of the taxpayer.

It seems to me that the logical time to take care of slum clearance is not during a boom period like the present when costs are high and when labor is fully employed, but that attempts to better our housing supply should be made primarily in periods when unemployment is increasing and when costs are dropping.

It seems to me that if we continue to build at our present rate without increasing that rate, by 1949 or 1950 our housing shortage will have practically disappeared. During the five years after that will be the logical time to try to replace our slums with adequate housing. To attempt it earlier, in my opinion, will only intensify the present boom and also intensify the economic readjustment which will take place in the fifties. I am primarily interested in seeing this readjustment cut to a minimum because I think that unless it is, free enterprise has a rather dark future.



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